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## THE CASE FOR A LEGISLATIVE AMENDMENT AGAINST ‘ACCESSORY COPYRIGHT’ FOR GREY MARKET PRODUCTS: WHAT CAN THE U.S. LEARN FROM SINGAPORE AND AUSTRALIA?

IRENE CALBOLI\* and MARY LAFRANCE\*\*

In this article, we suggest that the U.S. Congress could implement a legislative provision prohibiting copyright protection for incidental product features in the context of parallel imports. The U.S. would not be the first country to implement such a provision. In 1994, Singapore pioneered the adoption of a similar provision, which was introduced as an amendment to the *SG 1987 Copyright Act*. A few years later, in 1998, Australia incorporated a similar amendment to its *Aust. Copyright Act 1968*. In this article, we analyse in detail the Singapore and Australia provisions and, building upon these provisions, we suggest a specific amendment that the U.S. Congress could introduce into the *U.S. Copyright Act of 1976*.

### I. INTRODUCTION

In the U.S., as in most other countries, intellectual property rights are limited by the principle of intellectual property exhaustion (“the exhaustion principle”, also known as “the first sale rule”). According to this principle, the intellectual property rights in a product are exhausted after the product has been first sold into the market under the authority of intellectual property owners. A bedrock of intellectual property theory, the exhaustion principle balances the exclusive rights of intellectual property owners *vis-à-vis* the rights of the purchasers or the users of the products to freely sell, lend, or gift the products after they have purchased or otherwise lawfully obtained the products in the marketplace. While generally accepted with respect to product distribution within national markets, the application of this principle remains controversial in the context of international trade and parallel imports (genuine grey

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market products imported without authorisation, usually from lower-cost countries to higher-cost countries).<sup>1</sup> Generally, intellectual property owners oppose parallel imports because these imports interfere with their ability to segment international markets and charge different prices for the same products in different jurisdictions. In contrast, other businesses—independent importers, wholesalers, many distributors, and second hand dealers—favour grey market products due to the fact that their businesses benefit from the cheaper prices brought about by these products. National governments also adopt divergent positions favouring or opposing parallel imports, based on the advantages or disadvantages (in terms of product pricing, product availability, or threat to national businesses) that parallel imports may bring to their respective national economies.<sup>2</sup> Due to the sensitivity of the topic, the *Agreement on Trade-Related Aspects of Intellectual Property Rights* did not mandate (nor could reach) any harmonised position,<sup>3</sup> and countries remain free to follow their preferred approach.

In general, countries worldwide follow one of three separate approaches with respect to the exhaustion principle and the legality of parallel imports. First, under ‘national exhaustion’, intellectual property rights are considered exhausted only with respect to the products that have been sold domestically, and parallel imports are considered to be infringing products; second, under ‘international exhaustion’, intellectual property rights are considered exhausted with respect to the products that have been sold both domestically and internationally, and parallel imports are considered lawful imports; third (and the less frequent approach), under ‘regional exhaustion’, intellectual property rights are considered exhausted with respect to sales that have occurred in countries that are members of a specific regional group, like the E.U., where parallel imports are lawful across E.U. members while parallel imports from outside the E.U. are considered as infringing imports. The U.S., in particular, adopts a principle of national exhaustion in patent law (banning parallel imports of patented products)<sup>4</sup> and a principle of international exhaustion in trademark law

<sup>1</sup> In this article, we use the terms “parallel imports” and “grey market goods” interchangeably. In general, on the topic, see Christopher Heath, “Parallel Imports and International Trade” (1997) 28 Int’l Rev. Ind. Prop. & C’right L. 623; John C. Hilke, “Free Trading or Free-Riding: An Examination of the Theories and Available Empirical Evidence on Gray Market Imports” Bureau of Economics, Federal Trade Commission, Working Paper No. 150 (February 1987); Herman Cohen Jehoram, “Prohibition of Parallel Imports Through Intellectual Property Rights” (1999) 30 Int’l Rev. Ind. Prop. & C’right L. 495.

<sup>2</sup> For a detailed review of the regulation of parallel imports in Asia, for example, see the various contributions in Christopher Heath, ed., *Max Planck Series on Asian Intellectual Property Law: Parallel Imports in Asia*, vol. 9 (The Hague: Kluwer Law International, 2004).

<sup>3</sup> See *Agreement on Trade-Related Aspects of Intellectual Property Rights*, 15 April 1994, (1994) 33 I.L.M. 83, art. 6 (entered into force 1 January 1995) [TRIPs]. Article 6 provides that nothing in the Agreement can “be used to address the issue of the exhaustion of intellectual property rights”. See S.K. Verma, “Exhaustion of Intellectual Property Rights and Free Trade—Article 6 of the TRIPs Agreements” (1998) 29 Int’l Rev. Ind. Prop. & C’right L. 534 at 535, 536; Vincent Chiappetta, “The Desirability of Agreeing to Disagree: The WTO, TRIPs, International IPR Exhaustion and a Few Other Things” (2000) 21 Mich. J. Int’l L. 333.

<sup>4</sup> The U.S. *Patent Act*, 35 U.S.C. does not explicitly limit the first sale rule in patent law to national sales. Courts, however, have consistently ruled that sale of products made in a foreign countries do not exhaust domestic patent rights. See *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368 at 1376 (Fed. Cir. 2005): “[t]he patentee’s authorization of an international first sale does not affect exhaustion of that patentee’s rights in the United States.”

(permitting parallel imports of trademarked products).<sup>5</sup> Until early 2013, the U.S.'s position on the territorial application of the principle of copyright exhaustion was unclear, although the majority of the courts seemed to support an interpretation of the *Copyright Act of 1976*<sup>6</sup> favouring national copyright exhaustion. In March 2013, the Supreme Court of the U.S. reversed this interpretation in *Kirtsaeng v. John Wiley & Sons, Inc.* and clarified that the U.S. applies *international* exhaustion in copyright law.<sup>7</sup>

Still, for several years, the general assumption was that the U.S. followed a principle of national exhaustion in copyright law, at least with respect to foreign-made products, and international exhaustion in trademark law. Accordingly, because of this difference, many businesses turned to the protection offered by copyright law in order to find that relief against parallel imports that they could not find under the rule of trademark law. Hence, since many commercial products do not qualify for copyright protection (because they are functional or do not meet the required standard of originality) businesses claimed protection for incidental product features—such as logos, labels, packaging, or owner's manuals—that could qualify for copyright protection. Then, based upon the copyright in these incidental features, businesses started to claim that the unauthorised importation of products carrying those features constituted copyright infringement.<sup>8</sup> For the time being, the decision in *Kirtsaeng* ended this opportunistic exploitation of copyright law. As we note in this article, however, the effects of *Kirtsaeng* may be short-lived, as pressure seems to be mounting within the U.S. Congress to overturn the Supreme Court's decision. Should Congress overturn the decision—and Congress announced the need for comprehensive copyright reforms a few weeks after *Kirtsaeng* was issued—the U.S. would again find itself with different territorial rules in copyright and trademark exhaustion. This, in turn, would revive the trend of claiming copyright protection for incidental product features as an end-run around international trademark exhaustion. This ending, however, could be avoided. To this effect, in this article, we suggest that the U.S. Congress could implement a legislative provision prohibiting copyright protection for incidental product features in the context of parallel imports. The U.S. would not be the first country to implement such a provision. In 1994, Singapore pioneered the adoption of a similar provision, which was introduced as an amendment<sup>9</sup> to the Singapore *Copyright Act 1987*.<sup>10</sup> A few years later, in 1998, Australia incorporated a similar amendment in its *Copyright Act 1968*.<sup>11</sup> In this article, we analyse in detail the Singapore and Australia provisions and, building upon these provisions, we suggest

<sup>5</sup> See J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, 4th ed., looseleaf (Eagan: Thomson Reuters, 2013) at para. 29:46.

<sup>6</sup> *Infra* note 18.

<sup>7</sup> 133 S. Ct. 1351 (2013) [*Kirtsaeng*].

<sup>8</sup> For an early description on this practice, see Donna K. Hintz, "Batling Gray Market Goods With Copyright Law" (1994) 57 Alb. L. Rev. 1187 at 1191 *et seq.* For a critique, see Teresa Scassa, "Using Copyright Law to Prevent Parallel Importation: A Comment on *Kraft Canada, Inc. v. Euro Excellence, Inc.*" (2006) 85 Can. Bar Rev. 409 at 410.

<sup>9</sup> Sing., *Copyright (Amendment) Act*, No. 14 of 1994 [1994 Amendment Act].

<sup>10</sup> Sing., *Copyright Act 1987*, No. 2 of 1987 [SG 1987 Copyright Act] (revised as the *Copyright Act* (Cap. 63, 1988 Rev. Ed. Sing.)), as am. by 1994 Amendment Act, *ibid.* See now *Copyright Act* (Cap. 63, 2006 Rev. Ed. Sing.), ss. 7(1), 40A(1), 116A(1) [SG 2006 Copyright Act].

<sup>11</sup> *Copyright Act 1968* (Cth.), ss. 10(1), 44C, 112C, as am. by *Copyright Amendment Act (No. 1) 1998* (Cth.).

a specific amendment that Congress could introduce into the U.S. *Copyright Act of 1976*.<sup>12</sup>

## II. GRAY MARKET PRODUCTS AND INTELLECTUAL PROPERTY EXHAUSTION IN THE U.S.: HOW THE SUPREME COURT STOPPED (FOR NOW) THE ‘ACCESSORY COPYRIGHT’ GAME

In the U.S., the admissibility of parallel imports of consumer goods is regulated primarily under trademark law (provided that the products are not protected under patent law). Based upon the premise that trademarks are not protected as property, but only as indicators of commercial origin for consumers, U.S. trademark law allows the importation of genuine goods carrying a trademark protected in the U.S. as long as consumers are not confused as to the origin or quality of the imported products.<sup>13</sup> The traditional justification for this rule rests on the pro-competitive policy objectives of trademark law. Specifically, this rule derives from the principle that the public should be allowed to benefit from the lower prices that usually accompany grey market products and that trademark owners should not be allowed to control downstream distribution after the products have been legitimately sold in the marketplace, even if the sale takes place outside the U.S. Trademark owners can thus prevent parallel imports only when the imported products carry a mark that is identical with, or confusingly similar to, the mark that is registered and/or used by an unrelated business entity.<sup>14</sup> Without this protection, consumers could believe that the products originate from the U.S. trademark owner instead of the foreign owner. Still, anytime that both the foreign mark and the U.S. mark are “owned by the same person or business entity”, grey market goods can be lawfully imported, including when the marks’ ownership is “subjected to common ownership and control”.<sup>15</sup> As the only exception to this rule, trademark owners can object to the importation of grey market products that are of a ‘materially different’ quality from the goods that trademark owners sell in the domestic market. Here, again, the rationale of this rule rests on the possibility that consumers could be confused as to the quality of the products should two seemingly identical products of materially different quality be

<sup>12</sup> *Copyright Act of 1976*, 17 U.S.C. [U.S. *Copyright Act of 1976*]. In this article, we also note that the Office for the U.S. Trade Representative (“USTR”) seems to support, or at least is not opposed, to a similar solution as part of the ongoing negotiations of the *Trans-Pacific Partnership Agreement* (“TPP”), which is currently being negotiated between Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the U.S.: see the 30 August 2013 draft of the *Trans-Pacific Partnership, Intellectual Property [Rights] Chapter Consolidated Text*, art. QQ.G.3, n. 135, online: WikiLeaks <<http://wikileaks.org/tpp/static/pdf/Wikileaks-secret-TPP-treaty-IP-chapter.pdf>> [TPP IP Chapter Draft Aug. 2013]. See also the discussion below at Parts II, III and IV.

<sup>13</sup> McCarthy, *supra* note 5 at para. 29:46.

<sup>14</sup> See 15 U.S.C. §§ 1114(1)(a), 1124, 1125(b). See also *Tariff Act of 1930*, 19 U.S.C. § 1526(a) (2006).

<sup>15</sup> *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 at 289 (1988), citing the Custom Service regulation, 19 C.F.R. § 133.21(c) (1987) (stressing that protection under the *Tariff Act of 1930*, *ibid.*, § 1526(a) is exclusively for domestic U.S. trademark owners that have no corporate affiliation with the foreign manufacturer). This rule aims at preventing strategic trademark assignments between companies controlled by the same entities across different national markets to bypass the rule of international trademark exhaustion. See also McCarthy, *supra* note 5 at para. 29:49.

offered for sale in the national market.<sup>16</sup> As an exception to this exception, however, the U.S. Customs Service's regulation was amended in the late 1990s in order to permit the importation of materially different grey market products in the instances where the importers have properly labelled the products to notify consumers of the difference in qualities.<sup>17</sup> In these instances, the labels affixed to the products are considered sufficient to dispel the potential consumer confusion that could otherwise be created in the market, and consumers should benefit from the additional competition and choices brought about by grey market products.

Because of the impossibility, or at least the difficulties, in resorting to trademark law, businesses have traditionally looked at legal alternatives to block parallel imports and segment the international distribution of their products. For example, businesses frequently turn to contract law as a means to restrict product distribution in the after-sale markets. An additional alternative seemed to be provided, however, under the *U.S. Copyright Act of 1976*. In particular, even though § 109(a) of the Act states that the owners of copyrighted works "lawfully made under this title" are entitled "to sell or otherwise dispose of the possession of that [work]" "without the authority of the copyright owner",<sup>18</sup> § 602(a)(1) provides that the "[i]mportation into the United States" of a copyrighted work acquired outside the U.S. "without the authority of the [copyright] owner" is "an infringement of the exclusive right [of] distribut[ion]".<sup>19</sup> Reading the two provisions together, businesses and the majority of the courts concluded that § 602(a)(1) of the Act barred the importation of grey market copyrighted products even when the products had been "lawfully made" and first distributed in foreign countries under the authorisation of copyright owners.<sup>20</sup> Only the Court of Appeals for the Third Circuit held that § 109(a) limited the importation right in § 602(a)(1) and equally applied to national and international sales.<sup>21</sup> Still, as we indicated in Part I, consumer products usually do not qualify for copyright protection in their entirety because they are frequently useful/functional products or do not meet the necessary level of originality required for protecting works of

<sup>16</sup> See *Lever Brothers Co. v. United States*, 877 F.2d 101 (D.C. Cir. 1989); *Lever Brothers Company v. United States*, 981 F.2d 1330 (D.C. Cir. 1993). In these decisions, the Court of Appeals for District of Columbia stated that trademarks applied to physically different goods are not "genuine" for American consumers.

<sup>17</sup> 19 C.F.R. § 133.23(b):

Goods determined by the Customs Service to be physically and materially different... shall not be detained... where the merchandise or its packaging bears a conspicuous and legible label designed to remain on the product until the first point of sale... The label must be in close proximity to the trademark as it appears in its most prominent location on the article itself or the retail package or container. Other information designed to dispel consumer confusion may also be added.

See also McCarthy, *supra* note 5 at para. 29:50.

<sup>18</sup> *U.S. Copyright Act of 1976*, *supra* note 12, § 109(a) (2008). Copyright exhaustion was created as a judicial doctrine in *Bobbs-Merrill Company v. Straus*, 210 U.S. 339 (1908) [*Bobbs-Merrill*]. In 1909, the principle was codified in the *Copyright Act of 1909*, Pub. L. No. 60-349, 35 Stat. 1075. See *Quality King*, *infra* note 23 at 141, 142: "Congress subsequently codified our holding in *Bobbs-Merrill* that the exclusive right to 'vend' was limited to first sales of the work."

<sup>19</sup> *U.S. Copyright Act of 1976*, *ibid.*, § 602(a)(1).

<sup>20</sup> Some of the most important decisions in this respect came from the Court of Appeals for the Ninth Circuit: see *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996); *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994); *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991).

<sup>21</sup> See e.g., *Sebastian International Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3rd Cir. 1988).

authorship. Consumer products nonetheless frequently include non-useful decorative features that can pass the (low threshold) test for copyright protection, namely packaging, labels, tags, instructions, and owner's manuals. In addition, ornamental designs or software embedded in the products generally qualify for copyright protection. Accordingly, businesses started to claim copyright protection for these incidental product features, and in some cases even registered these features with the U.S. Copyright Office. Then, they leveraged the copyright protection in these features against the unauthorised imports of the products carrying these features, and asserted that the importation of these products amounted to copyright infringement.<sup>22</sup>

In the late 1990s, the Supreme Court partially stopped this trend in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*<sup>23</sup>—a case about shampoo bottles carrying copyrighted labels. In this case, the Court found that the copyright in the labels affixed to the products had been exhausted, even if the products had been imported from overseas. Still, in *Quality King*, the court found that § 109(a) applied primarily, if not only because the products had been made domestically before having been exported and later reimported into the U.S. (the so-called round trip).<sup>24</sup> Although the court did not address whether § 109(a) and the exhaustion principle also applied to foreign-made grey market products, which were later imported into the U.S., its reasoning seemed to imply that they would not. As a result, many, including the Office for the U.S. Trade Representative, argued that the U.S. still followed a system of national copyright exhaustion with respect to foreign-made products and that § 109(a) applied only to domestically-made products.<sup>25</sup> This discriminatory approach to exhaustion on the basis of the place of manufacture was very problematic, however, in an increasingly integrated and global economy in which products, or pieces of them, are regularly manufactured and assembled across multiple jurisdictions. In 2010, the Supreme Court attempted to clarify the territorial

<sup>22</sup> In one instance, this practice was found to be copyright misuse: see *Omega S.A. v. Costco Wholesale Corp.*, No. 04-05443 at 2 (C.D. Cal. 2011). An appeal on this case is currently pending in the Ninth Circuit: see *Omega S.A. v. Costco Wholesale Corp.*, No. 11-57137 (9th Cir. 2012).

<sup>23</sup> 523 U.S. 135 (1998) [*Quality King*].

<sup>24</sup> *Ibid.* at 139.

<sup>25</sup> In particular, the *Agreement between the United States of America and the Hashemite Kingdom of Jordan on the Establishment of a Free Trade Area*, 24 October 2000, 41 I.L.M. 63 [*U.S.-Jordan FTA*], the *United States-Morocco Free Trade Agreement*, 15 June 2004, 44 I.L.M. 544 [*U.S.-Morocco FTA*] and the February 2011 and August 2013 (leaked) drafts of the "Intellectual Property Chapter" of the TPP include a provision stating, with minimal variations, that "[e]ach Party shall provide to authors, performers, and producers of phonograms the right to authorize or prohibit the importation into that Party's territory of copies of the work, performance, or phonogram made without authorization, or made outside that Party's territory with the authorization of the author, performer, or producer of the phonogram": see *U.S.-Jordan FTA*, *ibid.*, art. 4(11); *U.S.-Morocco FTA*, *ibid.*, art. 15.5(2); *Trans-Pacific Partnership, Intellectual Property Rights: Draft—February 10, 2011*, art. 4.2, online: <<http://keionline.org/sites/default/files/tpp-10feb2011-us-text-ipr-chapter.pdf>> [*TPP IP Chapter Draft Feb. 2011*]; *TPP IP Chapter Draft Aug. 2013*, *supra* note 12, art. QQ.G.3. Interestingly, however, the latest *TPP IP Chapter Draft Aug. 2013* also includes a provision contradicting this rule and favouring international exhaustion, which is supported by all TPP members with the exception of the U.S. and Australia: see *TPP IP Chapter Draft Aug. 2013*, *ibid.*, art. QQ.G.17: [CL/NZ/SG/MY/BN/VN/PE/MX propose; AU/US oppose: The Parties are encouraged to establish international exhaustion of rights.] [footnote numbers omitted]. The same provision indicates that Canada proposes an alternative 'exhaustion neutral' option: "[CA propose: Nothing in this Chapter shall affect the freedom of the Parties to determine whether and under what conditions the exhaustion of copyright and related rights applies.]"

scope of copyright exhaustion in *Costco Wholesale Corporation v. Omega, S.A.*<sup>26</sup>—a case about Swiss-made grey market watches carrying a small copyrighted insignia and imported into the U.S. without Omega's consent. Yet the Justices could not even reach a majority in the case due in part to Justice Kagan's recusal. An equally divided Court thus affirmed without explanation<sup>27</sup> the decision on appeal—ruling against the importers.<sup>28</sup> Only in March 2013 did the Supreme Court finally clarify the issue in *Kirtsaeng v. John Wiley & Sons, Inc.*, ruling that the exhaustion principle in § 109(a) applies equally to products “lawfully made” in the U.S. and those “lawfully made” in foreign countries.<sup>29</sup> In his majority opinion, Justice Breyer rejected a “geographical” application of § 109(a) and concluded that the language in § 109(a) does not, and cannot, refer to the actual place where the products are “made.”<sup>30</sup> Instead, Justice Breyer wrote that § 109(a) should be interpreted as referring to any copies that have been “made” so as to meet the requirement of national copyright law—that is, as made “with the permission of” the copyright owner, or “in accordance with” or “in compliance with” their instructions,<sup>31</sup> regardless of the actual place where these copies were made and first sold.

The majority opinion, however, was not unanimous. Notably, Justice Kagan, joined by Justice Alito, submitted a concurring opinion wherein she explained that the majority decision was necessary in light of *Quality King*,<sup>32</sup> which had incorrectly applied copyright exhaustion unevenly to domestically-made and foreign-made goods. The concurring opinion explained, in particular, that Justices Kagan and Alito had joined the majority primarily to rectify the wrongs of *Quality King* rather than because they were fully convinced that Congress wanted to establish a principle of international copyright exhaustion.<sup>33</sup> The opinion even seemed to advocate that Congress should amend § 602(1)(a)—notably it hinted that, “[i]f Congress thinks copyright owners need greater power to restrict importation... a ready solution is at hand”, Congress could clarify that § 602(a)(1) applies to all products imported into the U.S.<sup>34</sup> In addition, Justice Ginsburg issued a dissent joined by Justice Kennedy in full and by Justice Scalia in part,<sup>35</sup> in which she stressed that U.S. copyright law is based on the principle of territoriality, and foreign sales should not be considered to exhaust the right of the copyright owners in the U.S.<sup>36</sup> Justice Ginsburg also noted, correctly, that the position of the majority was in conflict with the position repeatedly taken by the U.S. in international trade agreements, that copyright owners should have the right “to prevent the unauthorised importation of copies of their work

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<sup>26</sup> 131 S. Ct. 565 (2010).

<sup>27</sup> *Ibid.*

<sup>28</sup> *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982 (9th Cir. 2008).

<sup>29</sup> 133 S. Ct. 1351 at 1358 (2013) (supporting that § 109(a) also applies “where, as here, copies are manufactured abroad with the permission of the copyright owner”).

<sup>30</sup> *Ibid.* at 1355, 1356.

<sup>31</sup> *Ibid.* at 1358.

<sup>32</sup> *Ibid.* at 1372, 1373 (Kagan J., concurring).

<sup>33</sup> *Ibid.*

<sup>34</sup> *Ibid.*

<sup>35</sup> *Ibid.* at 1373 *et seq.* (Ginsburg J., dissenting).

<sup>36</sup> *Ibid.* at 1373, stating that the position of the majority was “at odds with Congress’ aim to protect copyright owners against the unauthorized importation of low-priced, foreign-made copies of their copyrighted works.”



sold abroad.”<sup>37</sup> The USTR has consistently argued that the U.S.’s official position on copyright exhaustion is national exhaustion, at least with respect to foreign manufactured products after *Quality King*—a position that has been adopted in the free trade agreements (“FTAs”) with Jordan<sup>38</sup> and Morocco,<sup>39</sup> and has been repeatedly supported by the USTR in the ongoing negotiations for the *Trans-Pacific Partnership Agreement* (“TPP”).<sup>40</sup>

It is thus easy to imagine that, while parallel importers, wholesalers, libraries, and museums celebrated the decision in *Kirtsaeng*, copyright-intensive industries (publishers, entertainment industries, software producers, and multinational corporations) were likely to lobby Congress to overrule the decision with a legislative amendment. Perhaps simply a coincidence, just one day after the Court issued the decision in *Kirtsaeng*, Maria Pallante, the U.S. Register of Copyrights, publicly stated that the time had come for Congress to undertake necessary copyright reforms and bring American copyright law in line with the challenges of the twenty-first century.<sup>41</sup> A few weeks later, in April 2013, Representative Goodlatte announced that Congress was considering a major and comprehensive review of the *U.S. Copyright Act of 1976*.<sup>42</sup> Hearings on comprehensive copyright reforms started in May 2013 and are ongoing in Congress.<sup>43</sup> Although neither Ms. Pallante nor Representative Goodlatte singled out the decision in *Kirtsaeng* in their remarks, the issue of the territorial application of copyright exhaustion certainly remains front and centre of possible copyright reforms. In particular, as advocated by Justice Kagan’s concurring opinion, Congress will certainly discuss the post-*Kirtsaeng* application of the importation rights under § 602(1)(a), which now applies only to pirated copies. In addition, the position that the U.S. adopted in the two above-mentioned FTAs and that the USTR is currently supporting as part of the TPP negotiations, no longer aligns with the post-*Kirtsaeng* interpretation of the *U.S. Copyright Act of 1976*. Considering that copyright owners have a lot at stake in this battle—notably not only their ability to block grey market products imported into the U.S., but also (perhaps more importantly) their ability to segment international markets in general—copyright owners are likely to cite

<sup>37</sup> *Ibid.* at 1384. Justice Ginsburg also stressed that “[t]he Court’s bold departure from Congress’ design is all the more stunning, for it places the United States at the vanguard of the movement of ‘international exhaustion’ of copyrights—a movement that the United States has steadfastly resisted on the world stage”: *ibid.* at 1373.

<sup>38</sup> *U.S.-Jordan FTA*, *supra* note 25, art. 4(11).

<sup>39</sup> *U.S.-Morocco FTA*, *supra* note 25, art. 15.5(2).

<sup>40</sup> *TPP IP Chapter Draft Aug. 2013*, *supra* note 12, arts. QQ.G.3, QQ.G.17.

<sup>41</sup> See U.S., *The Register’s Call for Updates to U.S. Copyright Law Before the Subcommittee on Courts, Intellectual Property and the Internet*, 113th Cong. (2013) (Maria A. Pallante), online: United States House of Representatives: Committee on the Judiciary <<http://judiciary.house.gov/hearings/113th/03202013/Pallante%20032013.pdf>>.

<sup>42</sup> House Judiciary Committee Chairman Bob Goodlatte (R.-Va.) announced, on 24 April 2013, a comprehensive review of U.S. copyright law over the coming months: see United States House of Representatives: Committee on the Judiciary, Press Release, “Chairman Goodlatte Announces Comprehensive Review of Copyright Law” (24 April 2013), online: United States House of Representatives: Committee on the Judiciary <[http://judiciary.house.gov/news/2013/04242013\\_2.html](http://judiciary.house.gov/news/2013/04242013_2.html)>.

<sup>43</sup> For a detailed and updated summary of the ongoing Congressional hearings on copyright reforms, see Tamlin H. Basan, “Stakeholders Hopeful Open Approach Bodes Well for Goodlatte’s Copyright Reform Efforts” *Patent, Trademark & Copyright Law Daily* (2 October 2013), online: Bloomberg BNA <<http://www.bna.com/stakeholders-hopeful-open-n17179877492/>>.

these international agreements in urging Congress to overturn *Kirtsaeng*.<sup>44</sup> Should Congress do so, however, this would restore the incentive for trademark owners to use copyright protection in order to block the importation of otherwise lawful products. To prevent this, the U.S. should put in place specific mechanisms that would prevent the return to the opportunistic exploitation of copyright protection as an end-run around trademark protection. Among possible initiatives, the U.S. could enact a legislative amendment shielding parallel importers from copyright infringement for unauthorised imports of incidental (accessory) product features. As we elaborate in Part III, such a position has already been adopted both by Singapore and Australia. The analysis of these respective jurisdictions can provide useful examples for the U.S. to follow, with some necessary adaptations.

### III. CRAFTING LEGISLATION AGAINST 'ACCESSORY COPYRIGHT': WHAT CAN THE U.S. LEARN FROM SINGAPORE AND AUSTRALIA

#### A. *The Singaporean Model: Combining a Legislative Prohibition Against 'Accessory Copyright' and International Copyright Exhaustion*

Like the U.S., Singapore follows a system of international exhaustion with respect to trademark law and favours the importation of grey market products into the national territory. In particular, Singapore's trademark law directly allows the importation of grey market products carrying marks that are protected in Singapore as long as these products have been sold with the consent of the trademark owners anywhere in the world.<sup>45</sup> Singapore's interpretation of the trademark owners' consent is generally very broad, and includes express and implied consent, as well as conditional consent—that is, grey market products are considered legitimate imports also when trademark owners consented to their sale abroad but restricted their further distribution to a prescribed territory.<sup>46</sup> Based on the principle of territoriality of trademark protection, however, unauthorised imports of goods carrying a mark protected in Singapore can be stopped at the border and considered trademark infringement when

<sup>44</sup> In the early 2000s, pressure in this sense was made to New Zealand, which follows a principle of international copyright exhaustion since 1998: see *Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998* (N.Z.), 1988/20, online: Parliamentary Counsel Office <<http://www.legislation.govt.nz/act/public/1998/0020/latest/DLM426040.html>>. In 2003, due to this pressure, New Zealand introduced some limitations in favour of films. New Zealand could be obliged to further review their current law, should the TPP adopt the position advocated by the U.S. against international copyright exhaustion. A similar shift could be required by Singapore and several other negotiating parties to the TPP: see *TPP IP Chapter Draft Aug. 2013*, *supra* note 12, arts. QQ.G.3, QQ.G.17.

<sup>45</sup> Sing., *Trade Marks Act 1998*, No. 46 of 1998. Now, *Trade Marks Act* (Cap. 322, 2005 Rev. Ed. Sing.), s. 29 [*SG Trade Marks Act*]. Section 29 of the *SG Trade Marks Act 1998* is modelled after s. 12 of the *Trade Marks Act 1994* (U.K.), 1994, c. 26. For a detailed overview of similarities and differences between the Singapore and English trademark laws, see Ng-Loy Wee Loon, "Exhaustion of Rights in Trade Mark Law: The English and Singapore Models Compared" [2000] E.I.P.R. 320. For a detailed overview of parallel imports in Singapore, see also Ng-Loy Wee Loon, "Exhaustion and Parallel Imports in Singapore" in Heath, *supra* note 2, 137; George Wei, "Parallel Imports and Intellectual Property Rights in Singapore" (1990) 2 Sing. Ac. L.J. 286.

<sup>46</sup> *SG Trade Marks Act*, *ibid.*, s. 29(1). See Burton Ong, "The Interface Between Intellectual Property Law and Competition Law in Singapore" in Steven D. Anderman, ed., *The Interface Between Intellectual Property Rights and Competition Policy* (Cambridge: Cambridge University Press, 2007) 375 at 399.

the owner of the mark in Singapore and the owner of the mark abroad are two distinct entities.<sup>47</sup> Still, as in the U.S., if the Singapore trademark and the foreign mark are owned by related entities, the importation of grey market products is permitted, as the owner of the Singapore trademark would be deemed to have implicitly consented to the first sale of the grey market products abroad.<sup>48</sup> This rule aims at preventing multinational corporations from strategically assigning their national trademark registrations to separate (yet related) subsidiaries in order to bypass the principle of international trademark exhaustion and prevent grey market products. Essentially, trademark owners in Singapore can block parallel imports only when the quality of the grey market products has been “changed or impaired” after the products have been put into the market by their legitimate owners and “the use of the registered trade mark... has caused dilution in an unfair manner of the distinctive character of the registered trade mark.”<sup>49</sup> Trademark owners, in contrast, cannot rely on the *SG Trade Marks Act* to prevent the imports of grey market products of different quality when the products are genuine, that is, when trademark owners themselves distribute products of a different quality in separate national markets (due to taste preferences, market conditions, *etc.*).<sup>50</sup> In this instance, trademark owners could try to rely on the common law action of passing off in order to attempt to block grey market goods of a different quality, even though it would be up to the courts to decide on the merit of each individual case whether these products are infringing products.<sup>51</sup>

Like the U.S. post-*Kirtsaeng*, Singapore follows a system of international exhaustion also in copyright law, at least since the *1994 Amendment Act*, which amended the *SG 1987 Copyright Act*.<sup>52</sup> Prior to 1994, it was unclear whether the importation of grey market copyrighted goods in Singapore could constitute, under certain circumstances, copyright infringement under ss. 32 and 104 of the *SG 1987 Copyright Act*—according to which the importation for the purpose of sale or hire and other commercial activity of an article for which “the importer knows or ought reasonably to know that the making of the article was carried out without the consent of the owner of the copyright” constitutes copyright infringement.<sup>53</sup> Notably, until 1994, it was unclear from the statutory text whether the “consent” at issue ought to be the consent given by the copyright owner in Singapore or, instead, the copyright owner in the country where the products had first been distributed. In 1993, the Singapore High

<sup>47</sup> *SG Trade Marks Act*, *ibid.*, s. 27. See *Pan-West (Pte) Ltd v. Grand Bigwin Pte Ltd* [2003] 4 S.L.R.(R.) 755 (H.C.), where the court found that the goods were genuine goods in Japan but not genuine parallel imports into Singapore because the plaintiff/Singapore trademark owner and the Japanese trademark owner were not related.

<sup>48</sup> The decision in *Revlon Inc. v. Cripps & Lee Ltd.* [1980] Fleet Street Reports 85 (C.A.) is the authority in this respect: see Ng-Loy Wee Loon, *The Law of Intellectual Property in Singapore*, rev. ed. (Singapore: Sweet & Maxwell, 2009) at para. 24.8.8 [Ng-Loy, *Singapore IP Law*].

<sup>49</sup> *SG Trade Marks Act*, *supra* note 45, s. 29(2).

<sup>50</sup> See *Beecham Group Plc v. Chihneh Trading (S) Pte Ltd* [1992] SGHC 93.

<sup>51</sup> See Ng-Loy, *Singapore IP Law*, *supra* note 48 at paras. 24.8.15, 24.8.16, referring to *Castrol Limited v. Automotive Oil Supplies Limited* [1983] R.P.C. 315, which was successively confirmed in *Colgate-Palmolive Limited v. Maxwell Finance Limited* [1989] R.P.C. 497.

<sup>52</sup> See also George Wei, *The Law of Copyrights in Singapore*, 2nd ed. (Singapore: SNP Editions, 2000) at paras. 8.199-8.224 [Wei, *Law of Copyrights*].

<sup>53</sup> *SG 1987 Copyright Act*, *supra* note 10, ss. 32, 104.

Court clarified this interpretation in *Public Prosecutor v. Teo Ai Nee*.<sup>54</sup> In that case, reading the provision(s) in combination with s. 25(2), the Chief Justice concluded that it was the copyright owner in Singapore whose consent was relevant for the purpose of determining if the imported copies were infringing.<sup>55</sup> As a result of *Teo Ai Nee*, Singapore found itself following a twofold system: (1) international copyright exhaustion for the works that had the same owners in the country(ies) of origin of the grey market products and Singapore; and (2) national copyright exhaustion for the works for which the copyrights was held by different copyright owners in Singapore and abroad. Less than a year after *Teo Ai Nee* was decided, however, the Singapore legislature overturned the decision and passed the *1994 Amendment Act*<sup>56</sup> in order to resolve this differential treatment. Notably, the Act inserted s. 25(3), according to which “the reference to the owner of the copyright” indicates “the person entitled to the copyright in respect of its application to the making of an article of that description in the country where the article was made” even if the same person did not own the copyright in Singapore.<sup>57</sup> As part of the same statutory reforms, the Singapore legislature also implemented s. 25(4), which provides that the existence of the copyright owners’ consent is determined without regard to any “condition as to the sale, distribution or other dealings in the article after its making”.<sup>58</sup> Accordingly, grey market copyrighted products are considered legitimate imports in Singapore regardless of the fact that the copyright owner in the country of first sale—Germany, India, Australia, and so forth—intended to restrict product distribution to a certain territory, which did not include Singapore.

In addition to clarifying the meaning of “consent”, the *1994 Amendment Act* introduced an *ad hoc* provision prohibiting the enforcement of copyright protection for accessories in the context of parallel imports. Notably, s. 40A(1) was introduced, which provides that the importation and distribution of an “accessory to an article is not infringed by a person who, without the license of the owner of the copyright, imports the article into Singapore... unless the article is an infringing copy.”<sup>59</sup> The same principle was also introduced in the new s. 116A(1) with respect to “a published edition of a work embodied in an accessory to an article” and “a sound recording or cinematograph film that is an accessory to an article”.<sup>60</sup> The origin of these provisions can probably be traced to the discussions on copyright reforms (which included a proposal for a similar provision) in Australia in the late 1980s and early 1990s after the problematic decision in the case of *RA & A Bailey & Co. Ltd. v. Boccaccio Pty Ltd.*<sup>61</sup> Ultimately, as we discuss in the next section, Australia introduced

<sup>54</sup> [1993] 3 S.L.R.(R.) 755 [*Teo Ai Nee*] (finding that, under s. 25(2), the consent relevant to assess whether the copyright owner had consented to the distribution of the products was the consent of the copyright owner in Singapore; the same applied to the interpretation of consent with respect to the manufacturing of the products).

<sup>55</sup> See Wei, *Law of Copyrights*, *supra* note 52 at para. 8.203.

<sup>56</sup> The *1994 Amendment Act* was passed on 25 August 1994 and commenced on 1 October 1994: see Wei, *Law of Copyrights*, *ibid.* at para. 8.209.

<sup>57</sup> *SG 2006 Copyright Act*, *supra* note 10, s. 25(3).

<sup>58</sup> *Ibid.*, s. 25(4).

<sup>59</sup> *Ibid.*, s. 40A(1).

<sup>60</sup> *Ibid.*, s. 116A(1).

<sup>61</sup> [1986] 6 Intellectual Property Reports 279 (N.S.W.S.C.) [*RA & A Bailey*].

a similar provision into the Australian *Copyright Act 1968* in 1998.<sup>62</sup> Hence, unlike Singapore, Australia applies, with some relevant exceptions, the more protectionist position of national exhaustion (and attempts to shift towards a broad rule of international exhaustion have not been successful so far), thus a provision prohibiting copyright liability was necessary in Australia to prevent businesses from invoking copyright protection for product accessories, and in turn leveraging such protection to bypass the general rule of international trademark exhaustion which applied, and still applies, in Australia. By contrast, since Singapore follows a system of international exhaustion both for trademark and copyright law, businesses in Singapore already lacked the option to turn to copyright law as an end-run around trademark law. Still, even for a country applying a principle of international copyright exhaustion like Singapore, the introduction of provisions like ss. 40A(1) and 116A(1) represents an important step in order to lay down, as a general rule, a specific prohibition against what could otherwise be perceived as using copyright in a “wholly inappropriate” manner “against the consumer interests”.<sup>63</sup> Moreover, these provisions could become particularly important for Singapore in the event of a future change from international to national copyright exhaustion as preferred (or required) national policy. As we mentioned in Part II, such a change is being advocated by the U.S. as part of the ongoing *TPP* negotiations,<sup>64</sup> in which Singapore is a participant. Perhaps precisely because of this, the (leaked) drafts of the *TPP* have included an exclusion from a parallel imports ban for copyrighted products for copyright accessories.<sup>65</sup>

In addition to the general principle laid out in ss. 40A(1) and 116A(1), the 1994 *Amendment Act* introduced a detailed definition of “accessory” in s. 7(1). In particular, the provision defines “accessories” to include labels, packaging, containers, leaflets, pamphlets, certificates, warranties, brochures, “written instructions or other information” that are incidental to the article, as well as instructional sound recordings and films that are incidental to the article.<sup>66</sup> Section 7(1) nonetheless excludes certain items from this list. Namely, the definition of “accessories” does not include “a copy of the work that is incorporated into the surface of the article and is a permanent part of the article” or that “cannot be separated from the article without rendering the article unsuitable for its ordinary use”.<sup>67</sup> Similarly, the definition of “accessory”

<sup>62</sup> (Cth.), ss. 10(1), 44C, 112C, as am. by *Copyright Amendment Act (No. 1) 1998* (Cth.) [*Aust. Copyright Act 1968*].

<sup>63</sup> Wei, *Law of Copyrights*, *supra* note 52, at para. 8.213.

<sup>64</sup> See *TPP IP Chapter Draft Aug. 2013*, *supra* note 12, arts. QQ.G.3, QQ.G.17.

<sup>65</sup> The August 2013 draft of the *TPP* includes a provision offering a specific exclusion from a parallel imports ban for products carrying copyrighted accessories, which is seemingly proposed by the U.S.: see *TPP IP Chapter Draft Aug. 2013*, *ibid.*, art. QQ.G.3, n. 135:

[US: With respect to copies of works and phonograms that have been placed on the market by the relevant right holder, the obligations described in Article [QQ.G.3] apply only to books, journals, sheet music, sound recordings, computer programs, and audio and visual works (i.e., categories of products in which the value of the copyrighted material represents substantially all of the value of the product).

The footnote continues, however, stating that “each Party may provide the protection described in Article [QQ.G.3] to a broader range of goods.” An identical provision was included in *TPP IP Chapter Draft Feb. 2011*, *supra* note 25, art. 4.2, n. 11.

<sup>66</sup> *SG 2006 Copyright Act*, *supra* note 10, s. 7(1).

<sup>67</sup> *Ibid.*

excludes “a manual sold with computer software for use in connection with that software”.<sup>68</sup> In addition to these specific exclusions, the *1994 Amendment Act* clarified in ss. 40A(2) and 116A(2) that the new provisions only affect cases where copyright is asserted with respect to copyrighted accessories and do not apply where the copyright is asserted with respect to “a work embodied in the article or a sound recording or cinematographic film”<sup>69</sup>—in other words, “where the copyright subject-matter is part of the article itself”.<sup>70</sup> Here again, this clarification remains, for the time being, primarily a theoretical exercise—since Singapore law allows the importation of all copyrighted products from overseas under ss. 25(2), (3) and (4), the definitional distinction elaborated in ss. 40A(2) and 116A(2) does not have relevance in practice because all types of copyrighted works (whether accessories, integral parts of products, or products in their entirety) would still be considered legitimate imports under the general rule. This definitional distinction would become crucial, to the contrary, should Singapore shift to a system of national exhaustion in the future, like (for the most part) Australia or the U.S. pre-*Kirtsaeng*. In this event, the unauthorised importation of uncopyrighted products carrying copyrighted accessories would be non-infringing, while the importation of copyrighted works that are “part of the article itself” would be infringing.<sup>71</sup>

Finally, one of the most remarkable (and perhaps most currently relevant) features of the *1994 Amendment Act* introductions is the fact that ss. 40A(1) and 116A(1) do not expressly require that the accessories applied to the imported products be non-infringing—in other words, the provisions seem to permit the importation of genuine grey market products carrying non-authorised copies of copyrighted accessory works. Notably, ss. 40A(1) and 116A(1) explicitly require only that the articles to which the accessories are affixed should be non-infringing copies (of copyrighted works lawfully distributed with the consent of the copyright owners overseas). The provisions are silent, however, over whether the ‘works embodied in an accessory to a non-infringing article’ should also be non-infringing. As we highlight in the next section, this differs from the approach adopted, in 1998, in the *Copyright Amendment Act (No. 1) 1998*<sup>72</sup> that introduced the Australian provision on copyright protection for accessories: under the Australian provision, the accessories at issue must also be non-infringing.<sup>73</sup> To the contrary, the language of the *1994 Amendment Act* could be interpreted as to permit (or not to oppose) the importation of non-infringing articles carrying unauthorised accessories, for example an unauthorised copy of a copyrighted label, written product instructions, brochures, and so forth. As this outcome was most likely a deliberate choice, this could suggest that the Singapore legislature did not believe that, on balance, unauthorised copies of accessories could cause significant harm to copyright owners compared to the benefits of allowing otherwise genuine goods to be imported into Singapore. Ultimately, under the definition in s. 7(1), the number of works that qualify as “accessories” remains a narrow category<sup>74</sup> and the Singapore legislature perhaps considered that withholding copyright remedies for

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<sup>68</sup> *Ibid.*

<sup>69</sup> Wei, *Law of Copyrights*, *supra* note 52, para. 8.214.

<sup>70</sup> *Ibid.*

<sup>71</sup> See *supra* note 66.

<sup>72</sup> (Cth.) [1998 Amendment Act].

<sup>73</sup> *Copyright Act 1968* (Cth), s. 44C(1) [*Aust. Copyright Act*].

<sup>74</sup> *SG 1987 Copyright Act*, *supra* note 10, s. 7(1).

such a limited number of potentially unauthorised accessories was justified by the goal of reducing the potential for nuisance litigation that could otherwise interfere with the importation of products that could be lawfully imported under trademark law. As we elaborate in Part IV, a similar approach may be difficult to apply in the U.S., even though the courts in the U.S. could find that unauthorised accessories affixed to otherwise legitimate goods represent only a *de minimis*, thus not actionable, infringement,<sup>75</sup> or qualify under a fair use exception.<sup>76</sup>

B. *The Australian Model: Combining a Legislative Prohibition Against  
“Accessory Copyright” and National Copyright Exhaustion*

In Australia, as in the U.S. and Singapore, trademark law offers limited tools against the importation of grey market products into the domestic territory. In particular, even though the *Trade Marks Act 1995* does not explicitly provide a rule in this respect,<sup>77</sup> courts in Australia have established a system of international trademark exhaustion where Australian trademark owners cannot turn to trademark law to prevent the importation of non-counterfeit trademarked products.<sup>78</sup> As explicitly reminded by the Supreme Court of New South Wales, trademark law does not operate to prevent the sale of parallel imports, that is, genuine goods of the proprietor with its trademark which were not intended for the Australia market.<sup>79</sup> More specifically, s. 123 of the *Aust. Trade Marks Act* provides that the use of a trademark does not infringe on the registered owner’s rights “if the trade mark has been applied to, or in relation to, the goods by, or with [his] consent”.<sup>80</sup> During the past two decades, the Australian

<sup>75</sup> See *Davis v. The Gap, Inc.*, 246 F.3d 152 at 173 (2nd Cir. 2001): “[i]f a copyright owner were to sue the makers of trivial copies, judgment would be for the defendants. The case would be dismissed because trivial copying is not an infringement”; *Ringgold v. Black Ent’t Television*, 126 F.3d 70 at 74 (2nd Cir. 1997) [*Ringgold*]: “[u]nderstandably, fact patterns are rarely litigated illustrating this use of the phrase, for, as Judge Leval has observed, such circumstances would usually involve ‘[q]uestions that never need to be answered.’”, citing Pierre N. Leval, “Nimmer Lecture: Fair Use Rescued” (1997) 44 U.C.L.A. L. Rev. 1449 at 1457.

<sup>76</sup> See 17 U.S.C. § 107 (establishing the elements of fair use); *Ringgold*, *ibid.* at 80 (noting that copying which is too substantial to be *de minimis* may still qualify as fair use). See also *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

<sup>77</sup> *Trade Marks Act 1995* (Cth.) [*Aust. Trade Marks Act*].

<sup>78</sup> See *Polo/Lauren Company L P v. Ziliani Holdings Pty Ltd* [2009] 80 Intellectual Property Reports 531 at para. 5 (F.C.A.F.C.) [*Polo/Lauren* (F.C.A.F.C.)], citing *Champagne Heidsieck et Cie Monopole Societe Anonyme v. Buxton* [1930] 1 Ch. 330 [*Champagne*]; *Atari, Inc. v. Fairstar Elecs.* (1982) 50 A.L.R. 274 (F.C.A.).

<sup>79</sup> *RA & A Bailey*, *supra* note 61 at 286, which stated that:  
[T]he right of exclusive use conferred by s 58 of the Trade Marks Act 1955 upon the registered proprietor to the exclusive use for the trade mark in relation to goods only operates to prevent the sale in Australia of goods which are not the proprietor’s but which are marked with the proprietor’s mark.

<sup>80</sup> *Supra* note 77, s. 123(1). See also *ibid.*, s. 123(2). See e.g., *Sporte Leisure Pty Ltd v. Paul’s International Pty Ltd* (No 3) [2010] FCA 1162 at para. 24 [*Sporte Leisure*], which highlighted that, “[b]y virtue of s 123 of the Act[,] the respondents will not have infringed the... trade marks by importing or supplying goods to which the trade marks were applied with the [trade mark owner’s] consent”; *Transport Tyre Sales Pty Ltd v. Montana Tyres Rims and Tubes Pty Ltd* (1999) 93 F.C.R. 421 at 433-436 (F.C.A.), which found that the importation of tires from Singapore without the consent of exclusive Australian distributor was lawful because the Japanese owner of the Australian trademark registration had consented to their manufacture.

courts have partially narrowed the application of this provision by interpreting the notion of trademark owners' consent restrictively—for instance, trademark owners are usually regarded by the courts as not having consented “to the application of the mark to goods which the other person knows at the time he or she applies the mark are to be supplied by him or her outside the territory.”<sup>81</sup> Nevertheless, even under this restrictive interpretation of the notion of consent, it seems that importation of grey market goods into Australia does not constitute trademark infringement as long as the trademarked goods were first sold with the consent of trademark owners in a foreign country and were later imported by a third party from that country into Australia (without the trademark owners' consent).<sup>82</sup> Trademark owners, however, remain free to block parallel imports of trademarked products when the products carry material differences that could result in consumer confusion or tarnishment of the mark.<sup>83</sup>

Because they could not rely on trademark law to prevent the importation of grey market products, intellectual property owners sought alternative avenues to fight parallel imports also in Australia. As in the U.S. pre-*Kirtsaeng*, Australian trademark owners found a strong ally in copyright law. Under the *Aust. Copyright Act*, the unauthorised importation of copyrighted works distributed overseas, as well as the public display or distribution of these works in Australia, constitute copyright infringement.<sup>84</sup> As in the U.S., businesses of many sorts, including makers of liquors, sunglasses, and apparel turned to copyright law to keep grey market products out of Australia. Here again, when the products could not qualify for copyright protection in their entirety, businesses claimed protection for those features that could qualify for copyright protection—again, products' packages, labels, designs, *etc.*—and leveraged the copyright in these features to keep grey market products carrying these features out of the Australian market. In 1986, this practice was scrutinised by the Supreme Court of New South Wales in the case of *R & A Bailey*, where the court, however, had no alternative but to rule for the plaintiff.<sup>85</sup> This case referred, in particular, to the enforceability of copyright protection for the decorative labels affixed to liqueur bottles. *R & A Bailey & Co Ltd* (“Bailey”), the manufacturer of the famous Irish Cream in Ireland, distributed its products in Australia via an authorised distributor and sued Boccaccio Pty Ltd for importing Bailey's Irish Cream from the Netherlands without Bailey's consent. Bailey claimed both trademark and copyright infringement because various aspects of the labels affixed to the bottles were protected under copyright law. Ultimately, the Supreme Court found that, while the defendant did not infringe on Bailey's trademark by importing and selling legitimate products bearing the Bailey's logo, the defendant infringed Bailey's copyright in the

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<sup>81</sup> *Sporte Leisure, ibid.* at para. 78. The court also noted that it would have found consent “but for the fact that the goods were manufactured... for sale outside [the authorised territory]”: *ibid.* at para. 90. On appeal, the Full Court of the Federal Court of Australia confirmed and stressed that the licensee who placed the mark on goods which it intended to distribute in unauthorised territories “stood in no different position to a third party applying the... marks who had no license agreement” with the trademark owner: *Paul's Retail Pty Ltd v. Sporte Leisure Pty Ltd* [2012] FCAFC 51 at para. 70.

<sup>82</sup> But see *Brother Industries, Ltd v. Dynamic Supplies Pty Ltd* [2007] 73 Intellectual Property Reports 507 (F.C.A.).

<sup>83</sup> *Polo/Lauren (F.C.A.F.C.)*, *supra* note 78 at para. 5, citing *Champagne*, *supra* note 78.

<sup>84</sup> *Aust. Copyright Act*, *supra* note 73, s. 37.

<sup>85</sup> *R & A Bailey*, *supra* note 61.



labels.<sup>86</sup> In particular, the court found no legal reason, under the law as it stood in 1986, to restrict producers to only one type of intellectual property protection—the court said that “a person who has both a trade mark and a copyright is generally entitled to protection against both.”<sup>87</sup>

This judicial victory was controversial, however, and shortly after the decision in *R & A Bailey*, the Australian Copyright Law Review Committee endorsed overturning the Supreme Court’s decision. Specifically, the Committee advocated for introducing a legislative amendment, which would prohibit using copyright law as a shield against otherwise legitimate grey market products.<sup>88</sup> More precisely, the Committee stated that “distributors should not be able to control the market for their products by resorting to the subterfuge of devising a label or a package in which copyright will subsist.”<sup>89</sup> The Committee also repeated that the “purpose of copyright is to protect articles which are truly copyrighted articles such as books, sound recordings, or films.”<sup>90</sup> Emphatically, the Committee noted that “[h]owever imaginatively labelled or packaged a bottle or liquor may be, the product is liquor” and the same “may be said of cigarettes, perfume and cosmetics.”<sup>91</sup> Still, it took over a decade for the Australian Federal Parliament to take action in this respect and put an end to the practice adopted by *Bailey* and many others. Finally, in 1998, the Australian Federal Parliament passed the *1998 Amendment Act*, which added/amended ss. 44C, 112C and 10(1) to the *Aust. Copyright Act*.<sup>92</sup> As noted in the Schedules accompanying the Act, the purpose of the 1998 amendment was “that the force of copyright law was never meant to apply to the contents of the bottle of liqueur which is really the subject of the importation.”<sup>93</sup> Alluding to *R & A Bailey* as the landmark example of how copyright protection could be easily misused to bypass the rule of trademark law, the Act introduced s. 44C into the *Aust. Copyright Act*. According to s. 44C, “[t]he copyright in a work a copy of which is, or is on, or embodied in, a non-infringing accessory to an article is not infringed by importing the accessory with the article.”<sup>94</sup> In parallel, the Act introduced s. 10(1), providing a detailed list of what constitutes an “accessory” within the meaning of s. 44C, namely labels, packaging, containers, instructions, warranties, “or other information,” as well as instructional sound recording or films, “provided with the article.”<sup>95</sup> The Australian legislature further expanded this list, in 2003, with the adoption of a subsequent amendment

<sup>86</sup> *RA & A Bailey*, *ibid.* at 289, 290, citing *Tavener Rutledge Ltd v. Specters Ltd (No 2)* [1959] R.P.C. 83 (H.C.), *aff’d* [1959] R.P.C. 355 (C.A.), and *Ogden Industries Pty. Ltd. v. Kis (Australia) Pty. Ltd.* [1982] 2 N.S.W.L.R. 283 at 300 (N.S.W.S.C.).

<sup>87</sup> *Ibid.*

<sup>88</sup> Copyright Law Review Committee, *The Importation Provisions of the Copyright Act 1968* (Canberra: Australian Government Publishing Service, 1988) at 224–226, cited in *Polo/Lauren (F.C.A.F.C.)*, *supra* note 78 at para. 19.

<sup>89</sup> *Ibid.*

<sup>90</sup> *Ibid.*

<sup>91</sup> *Ibid.*

<sup>92</sup> *Supra* note 73, amending s. 10(1) and adding ss. 44C, 112C.

<sup>93</sup> *Copyright Amendment Bill 1997* (Cth.), Schedule 3.

<sup>94</sup> *Supra* note 73, s. 44C(1).

<sup>95</sup> Interestingly, Olympic symbols are expressly excluded from this definition, thus, labels, packaging, or containers carrying Olympic symbols continue to be infringing even after the enactment of the 1998 amendments: see *Aust. Copyright Act*, *supra* note 73, s. 10(1); *Australian Olympic Insignia Protection Act of 1987* (Cth.).

to the *Aust. Copyright Act*. In particular, s. 10AD was introduced in 2003, which states that a “computer program”, “electronic literary or music item”, or “sound recording” that are part of or combined with imported articles are “accessories” within the meaning of ss. 44C, 112C and 10(1).<sup>96</sup> Unlike Singapore (where international exhaustion remains the general rule),<sup>97</sup> the Australian legislature ultimately decided to consider as “accessories” certain types of works fully embodied in an article, such as software, electronic, literary and music items, and sound recordings with the only exception of “feature films”.<sup>98</sup> This decision likely came as a compromise between a shift towards international exhaustion for all products, or maintaining national exhaustion—Australia ultimately took the latter approach but expanded the scope of exhaustion by subject matter with the adoption of s. 10AD.<sup>99</sup>

Despite the lists provided by ss. 10(1) and 10AD, doubts continued to linger, and still linger, with respect to the specific meaning of what constitutes an “accessory” under the new Australian law. As later cases have indicated, the courts in Australia have been so far able to only partially clarify these doubts as the courts themselves have been wrestling with the uneasy task of drawing the (sometimes very fine) line between what should be defined as an accessory under ss. 44C, 10(1) and 10AD, and elements that do not constitute accessories either because they are essential decorative features of the articles in question or are not sufficiently related to the products to be considered accessories. In particular, in 2008, the Federal Court of Australia provided some initial guidelines in this respect when it interpreted the new provision, for the first time, in *The Polo/Lauren Co LP v. Ziliani Holdings Pty Ltd. (Polo/Lauren (F.C.A.))*<sup>100</sup> This case, the court held that the popular Ralph Lauren polo player logo, which was woven into the plaintiff’s shirts, was a “label”, and thus an “accessory”.<sup>101</sup> As a result, the plaintiff could not rely on the copyright in the logo to block the unauthorised importation into Australia of grey market Polo/Lauren shirts that had been purchased abroad. To reach this result, the court adopted a broad definition of the term “label”. Specifically, the court argued that the logo as a symbol of the “brand name, trade mark and the name [of] a design or fashion house”,<sup>102</sup> could be considered as a type of “label”. Based upon this premise, the court found

<sup>96</sup> See *Aust. Copyright Act, ibid.*, s. 10AD, which was introduced by *Copyright Amendment (Parallel Importation) Act 2003* (Cth.). This provision explicitly excludes from a “featured film” form the definition of an “accessory”. For a definition of “featured film”, see *Aust. Copyright Act, ibid.*, s. 10AD(2).

<sup>97</sup> See discussion above at Part III.A.

<sup>98</sup> *Supra* note 73, s. 10AD(2).

<sup>99</sup> Australia is also a negotiating member of the TPP. Should the language of art. QQ.G.3, n. 135, of the *TPP IP Chapter Draft Aug. 2013*, *supra* note 12 be adopted, s. 10AD may need to be amended, as the types of works listed in the provision could be “categories of products in which the value of the copyrighted material represents substantially all of the value of the product”. See also the quote in note 65 above. The same provision was included in the previous *TPP IP Chapter Draft Feb. 2011*, *supra* note 25, art. 4.2, n. 11. The *TPP IP Chapter Draft Aug. 2013* shows, however, that Australia currently seems to adopt a contradictory position on copyright exhaustion. On one side, Australia opposes national copyright exhaustion along with Peru, New Zealand, Canada, Singapore, Chile, Mexico, and Japan: see *supra* note 12, art. QQ.G.3. On the other side, Australia supports the U.S. against the other negotiating members, which are proposing a rule of international exhaustion for all products: see *ibid.*, art. QQ.G.17.

<sup>100</sup> [2008] 75 I.P.R. 143 (F.C.A.) [*Polo/Lauren (F.C.A.)*].

<sup>101</sup> *Ibid.* at para. 64.

<sup>102</sup> *Ibid.* at para. 51. This case was appealed to the Full Court. The Full Court noted that this interpretation did not reject other more common applications of the term “label”, such as swing tags and other physical labels: see *Polo/Lauren (F.C.A.F.C.)*, *supra* note 78 at paras. 13-15. The Full Court, very interestingly,

that the embroidered polo player logo was a label, and not a decorative feature that should be protected by copyright. Notably, the court stated that an element is an “accessory” when “[t]he function which [the element]... performs is incidental to the use of the article as an item of commerce” and thus “[t]he article can be used for its intended purpose regardless of whether the... ‘accessory’ is present on it or as part of it.”<sup>103</sup> More specifically, under this functionality test, the court concluded that “[t]he embroidered polo player logo is not primarily a decorative feature, although it can be attractive to the eye in some of its manifestations.”<sup>104</sup> Moreover, the court added that the:<sup>105</sup>

[L]ogo will usually remain covered by the wearer’s outer clothing when it appears on the hem of an item of underwear... at least on such a garment, its function is primarily to signify the manufacturer’s identity, that is, to act as a label.

Interestingly, after this decision, Ralph Lauren started to magnify the polo player logo on its garments, perhaps in the hope that a considerably larger polo player logo would qualify as “primarily a decorative feature”<sup>106</sup> of the products rather than being considered simply a label.

Three years later, in 2011, the same court again addressed the definition of accessory in *QS Holdings SARL v. Paul’s Retail Pty Ltd* (ACN 114 419 242).<sup>107</sup> This time, the court’s approach had some striking differences from the approach taken in *Polo/Lauren* (F.C.A.). This case concerned the importation of both genuine and counterfeit apparel bearing the plaintiffs’ registered trademarks. The court granted the plaintiffs’ motion for summary judgment of trademark infringement with respect to the counterfeit goods<sup>108</sup> but not the genuine goods, because the latter constituted legitimate trademarked imports. However, several plaintiffs raised the additional claim of copyright infringement, because the clothing carried graphic design elements, and images of the clothing, including the graphic design elements, were reproduced in the defendant’s sales brochures. This time, the court agreed with the plaintiffs and held that the defendant would be liable for copyright infringement with respect to the unauthorised importation and domestic sale of the clothing that bore the authorised reproductions—that is, the genuine products.<sup>109</sup> Interestingly, the defendants did not claim that the graphic designs were “accessories”, and thus that the products’ importation could be legitimate under s. 44C. Perhaps, the defendants thought that it was unlikely that the court would consider the graphical designs affixed on the apparel as “accessories” rather than decorative features integral to the products themselves, based on the test previously adopted in *Polo/Lauren* (F.C.A.). The defendants did raise s. 44C with respect to the marketing brochures that reproduced the copyrighted designs.<sup>110</sup> However, the court found that the

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also did not accept the argument that the embroidered logo was “conceptually indistinguishable” from the garment itself: *ibid.* at para. 22.

<sup>103</sup> *Polo/Lauren* (F.C.A.), *supra* note 100 at para. 58.

<sup>104</sup> *Ibid.* at para. 63.

<sup>105</sup> *Ibid.*

<sup>106</sup> *Ibid.*

<sup>107</sup> [2011] 92 I.P.R. 460 (F.C.A.) [*QS Holdings*].

<sup>108</sup> *Ibid.* at para. 37.

<sup>109</sup> *Ibid.* at para. 92.

<sup>110</sup> *Ibid.* at para. 119.

provision did not apply to the brochures because the brochures were not “accessories” under s. 44C. An “accessory”, the court held, must have “some physical relationship” with the products to which it relates.<sup>111</sup> Accordingly, the plaintiff was able to use copyright protection in the graphic designs to prevent the importation and distribution of the grey market clothing as well as the accompanying brochures.<sup>112</sup>

Ultimately, based on the combined rulings in *Polo/Lauren (F.C.A.)* and *QS Holdings*, Australian courts will likely have to continue to take a case-by-case approach in drawing the line between true accessories that qualify under the exception set forth in s. 44C, and elements that are either integral parts of the products or not sufficiently related to the products, to which s. 44C does not apply. To date, several questions remain unanswered in this respect, even after the decisions issued by the Federal Court of Australia. For example, why was the logo woven onto the *Polo/Lauren (F.C.A.)* shirt an accessory while the graphics on the *QS Holdings* shirts were not? Perhaps, under the functionality test adopted in *Polo/Lauren (F.C.A.)*, the graphics on the *QS Holdings* shirts constituted an integral part of the product or played a larger role in making the overall product more attractive, rather than merely communicating the provenance of the garment, even though it is undoubted that the polo player logo constitutes one of the most wanted features of a Ralph Lauren apparel.<sup>113</sup> Almost certainly, the fact that the polo player logo is a registered trademark did not assist Ralph Lauren, as its resort to copyright law was obviously a stratagem to bypass international trademark exhaustion, under which the same products were legitimate imports into Australia. As Ralph Lauren started to do soon after the *Polo/Lauren (F.C.A.)* decision, manufacturers may also attempt to integrate their trademarks more fully in their product designs in order to claim that their copyrighted/trademarked features fall outside the definition of product accessories and could be categorised, instead, as integral parts of the products. These ‘trademark magnifying’ techniques may backfire, however, if the decorative features are expanded to the point of becoming functional elements of the products, as this may result in the loss of both trademark and copyright protection.<sup>114</sup> For example, Australian copyright law prohibits overlapping copyright and design protection, which can result in withdrawing copyright protection for artistic works when the works have been industrially applied.<sup>115</sup> In the end, the application of s. 44C in Australia will continue to require that courts carefully weigh how much value, as decorative elements, the features under consideration add to the products. Based on the result of this inquiry, the courts will decide,

<sup>111</sup> *Ibid.* at para. 124, additionally reasoning that s. 44C applies only to accessories that are imported, and there was no indication that the brochures had been imported.

<sup>112</sup> *Ibid.*

<sup>113</sup> In the U.S., see *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*, 529 U.S. 205 at 213, 214 (2000) (decorative features of apparel could not be protected as trade dress absent secondary meaning).

<sup>114</sup> See 15 U.S.C. § 1052(e)(5) (barring trademark registration for functional features); *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001) (features of product design previously patented are presumed functional and cannot be protected by trademark law) [*TrafFix*]; *Avia Group International, Inc. v. L.A. Gear California, Inc.*, 853 F.2d 1557 (Fed. Cir. 1988) (feature that is “primarily functional” is not eligible for design patent). See also 17 U.S.C. § 101 (defining useful articles); *Brandir International, Inc. v. Cascade Pac. Lumber Co.*, 834 F.2d 1142 (2nd Cir. 1987) (denying copyright protection for utilitarian aspects of useful article that were inseparable from artistic aspects).

<sup>115</sup> *Aust. Copyright Act*, *supra* note 73, s. 77.

on balance, whether these features are copyrighted accessories under the meaning of ss. 44C, 10(1), and 10AD of the *Aust. Copyright Act*.

#### IV. A PROPOSAL FOR A LEGISLATIVE AMENDMENT AGAINST “ACCESSORY COPYRIGHT” IN THE U.S.

Drawing on the Singaporean and Australian examples, it seems clear that the U.S. would also benefit from the adoption of a specific legislative solution that would exempt incidental uses of copyrighted product accessories from possibly-applicable restrictions on parallel imports imposed by copyright law. As we elaborate in this paragraph, such a provision would become particularly relevant in the event that Congress overrules the decision in *Kirtsaeng* and restores national copyright exhaustion as the applicable rule in the U.S. Moreover, a legislative solution offers greater legal certainty for all interested parties, compared to a judicial solution. Even though the courts could apply existing judicial doctrines—such as *de minimis* infringement, copyright misuse, or fair use<sup>116</sup>—to redress the negative effects of overlapping copyright and trademark protection for parallel imports, the application of these doctrines always requires (expensive) litigation and case-by-case adjudication, whose fact-driven outcomes remain difficult to predict and, more problematically, could result in judicial decisions limiting the scope of these doctrines in other contexts as well. In contrast, the narrowly tailored statutory exception that we advocate would restore the balance of rights that are established under copyright and trademark law respectively. Ultimately, we are well aware that a statutory exemption for copyrighted accessories will not be a panacea against possible questions of statutory interpretation as to what represents an “accessory”. In this respect, the cases decided in Australia demonstrate that the interpretation of statutory language will (almost unavoidably) remain a challenge for the courts in applying the normative provision.<sup>117</sup> Still, the range of uncertainty that may be derived from a carefully-crafted legislative amendment will be considerably narrower than the uncertainty that arises from applying ambiguous concepts such as *de minimis* infringement, copyright misuse, or fair use.

Accordingly, building upon the provisions that have been implemented in Singapore and Australia, we advocate that the U.S. Congress consider introducing into the *U.S. Copyright Act of 1976* a statutory exception for incidental uses of copyrighted features—which we call “accessories” in our proposal—with respect to parallel imports and the further sales of grey market products. This legislative amendment, in our view, should consist of a two-part provision: first, the suggested provision should include a non-exhaustive list indicating specifically the types of features and uses of those features that, regardless of copyright protection therein, should be exempt from restrictions on importation and subsequent distribution because their use on the products is incidental; second, the provision should

<sup>116</sup> With respect to *de minimis* copyright infringement, see *Davis v. The Gap, Inc.*, 246 F.3d 152 at 173 (2nd Cir. 2001); *Ringgold*, *supra* note 75 at 74. With respect to copyright misuse, see *Costco Wholesale Corporation v. Omega, S.A.*, 131 S. Ct. 565 (2010); *Assessment Technologies of WI, LLC v. Wiredata, Inc.*, 350 F.3d 640 at 646, 647 (7th Cir. 2003); *Practice Management Information Corporation v. The American Medical Association*, 121 F.3d 516 (9th Cir. 1997). For copyright fair use, see 17 U.S.C. § 107; *Ringgold*, *ibid.* at 80; *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

<sup>117</sup> *QS Holdings*, *supra* note 107; *Polo/Lauren (F.C.A.)*, *supra* note 100.

include a general “catch-all exception” for the occasional incidental feature that would fall outside of the list delineated in the first part of the provision, but would still refer to situations where copyright law is used anti-competitively as an end-run around trademark law. By borrowing elements both from the Singapore and Australia statutes, a specific provision eliminating copyright liability for parallel imports of copyrighted accessories accompanying grey market goods in the U.S. could read as follows:<sup>118</sup>

Where a copyrighted work is incorporated in an accessory to an article, the copyright embodied in the accessory is not infringed by a person who imports the article into the U.S. or by the domestic distribution of the imported article with the accessory without the consent of the copyright owner, provided that the accessory is a non-infringing accessory.

As we mentioned, the U.S. legislature should also implement a non-exclusive but detailed list of what constitutes an “accessory” within the meaning of the provision and should include in this list a general, catch-all clause. In particular, the legislative text could state that:

For purposes of this section, “accessory”, in relation to an article, means one or more of the following:

- (a) A label affixed to, displayed on, incorporated into the surface of, or accompanying, the article;
- (b) The packaging or container in which the article is packaged or contained;
- (c) A label affixed to, displayed on, incorporated into the surface of, or accompanying, the packaging or container in which the article is packaged or contained;
- (d) A written instruction, warranty or other information provided with the article;
- (e) A phonorecord embodying an instructional sound recording provided with the article;
- (f) A copy of an instructional audiovisual work provided with the article; or
- (g) Any other feature of the article, its packaging or its container, or any accompanying object, that contributes an *insubstantial* part of the value of the combination, apart from the trademark value of the feature.

In contrast with s. 7(1) of the *SG 2006 Copyright Act*, we do not suggest that this list should include any specific exclusions from the definition of “accessory”.<sup>119</sup> Moreover, in contrast with s. 10AD of the *Aust. Copyright Act*, we do not advocate

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<sup>118</sup> This language could be expanded in order to include accessories that are not infringing in the country where they were made, even if they were not authorised by the copyright owner in that country. This would include accessories made in countries where the copyright expired, where the work did not qualify for copyright protection, or where the copying was permitted by law. Should such approach be adopted, the country of manufacture should be a member country of the *Berne Convention for the Protection of Literary and Artistic Works*, 9 September 1886 (entered into force 5 December 1887) as last revised at Paris on 24 July 1971, 1161 U.N.T.S. 30 (entered into force 15 December 1972), and amended on 28 September 1979, S. Treaty Doc. No. 99-27 (1986), online: World Intellectual Property Organization <[www.wipo.int/treaties/en/ip/berne/pdf/trtdocs\\_wo001.pdf](http://www.wipo.int/treaties/en/ip/berne/pdf/trtdocs_wo001.pdf)>, or *TRIPs*, *supra* note 3.

<sup>119</sup> *Supra* note 10.

that broader categories of copyrighted products such as “computer programs,” “electronic, literary, or music items,” or “sound recordings” per se should be included in the definition of “accessory”.<sup>120</sup> Instead, under our proposal, the crucial inquiry to assess whether a specific product feature represents an accessory within the meaning of our suggested amendment would focus on the value that the copyrighted feature contributes to the overall commercial value of the article to which it is attached.<sup>121</sup> In particular, we advocate that a given feature should be considered to be an “accessory” within the meaning of the proposed amendment when the contribution of this feature to the overall value of the article that is imported is “insubstantial”. Based upon the language of our proposal, product features that can be categorised as items falling under the definitions of subsections (a)-(f) in the suggested provision will almost invariably be considered “insubstantial” accessories. Additional product features whose uses do not fall within the detailed list could still be considered as having “insubstantial” value based upon the catch-all exception in subsection (g). A product feature that falls within the detailed list of subsections (a)-(f), or under the general exception of subsection (g), should thus be considered an “accessory”, and the copyright in that feature should not preclude the importation and domestic sale of the article to which the feature is attached. By contrast, when a product feature contributes “substantially” to the value of the products to which it is affixed, the feature should be considered an integral part of the product and copyright protection should apply, even in the context of parallel imports. To turn to some practical examples, the (copyrighted) decorative elements that are affixed on the box of a tablet computer, a smart-phone, or a DVD videogame will certainly not have “substantial” value with respect to the overall value of the products themselves—the tablet, smart-phone, and video game—and thus should be considered product accessories of “insubstantial” value. In contrast, the software embedded in the tablet, smart-phone, and videogame is perhaps one of the most valuable components of the products and should be held to be a non-accessory because of its “substantial” value.

Under our proposed amendment, there will be cases where it would still be difficult to assess the actual value that a copyrighted feature contributes to the overall value of the product to which it is affixed. This may be the case, for instance, when an appealing design or packaging feature contributes to the product’s appeal to consumers more than the product self. In this respect, it would be hard to argue that a bar of chocolate, which is shaped as Mickey Mouse or Angry Birds, or which is sold in a package that is shaped as the characters, does not derive, overall, high value from the use of the characters. In this case, the copyrighted feature (the characters) would unlikely fit within our proposed definition of accessories because they would have “substantial” value for the sale of the products. The outcome may be different, however, for other types of chocolate bars (and many other products). For

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<sup>120</sup> *Supra* note 73.

<sup>121</sup> This is similar to the approach suggested by Bastarache J. in Canada in his minority opinion in *Euro-Excellence Inc. v. Kraft Canada Inc.* [2007] 3 S.C.R. 20 at paras. 94, 95 (Bastarache, LeBel, and Charron, JJ.). In our proposal, we refer to the “substantial” or “insubstantial” value of the product features in question with respect to the value of these features as copyrighted articles. We do not suggest, nor support, that the assessment of this value should take into account the value of the same features as trademarks, trade dress, or product get-ups, *i.e.* their value as source indicators and their reputation-related value.

example, consumers probably do not purchase Toblerone or Cote D'Or chocolate bars because the packages of the chocolate prominently feature a copyrighted decoration consisting, respectively, of a mountain or an elephant, or because the chocolate is mountain-shaped or has an elephant engraved in the chocolate. In these instances, both the copyrighted mountain and the elephant would most likely be considered "accessories" under our proposed definition of "accessories" because their value is likely "insubstantial" for the sale of the products.<sup>122</sup> Still, since no decision has been issued to date in the U.S. to provide specific guidance in defining what should be considered a copyrighted element that adds substantial value to the product that it accompanies, we recognise that it will remain for the courts to develop specific tests in this respect. As it has been the case in Australia, in the U.S., the courts will most likely have to engage in line-drawing distinctions between features that are true "accessories" and those that are not. Our proposed amendment, however, will provide the courts with a comprehensive and detailed normative foundation for their future decisions. Naturally, we acknowledge that the courts' decisions will necessarily be fact-driven. Thus, the judicial determination whether a copyrighted feature represents an "accessory" will still depend on a case-by-case fact-intensive analysis.

As we noted in Part B, with respect to Australia, the adoption of an exception for copyrighted features with "insubstantial" value may lead manufacturers in the U.S. to integrate these features more fully into their products—like Mickey Mouse or Angry Birds shaped chocolate—in order to claim that these features are "substantially" valuable parts of the products and thus non-accessory. In some cases, these techniques (which frequently simply amount to enlarging these features) could be successful, because the appearance of a product may be more important than its functionality (the consumers of Mickey Mouse or Angry Birds chocolate most likely do not buy the products for the chocolate). However, in other cases, these magnifying techniques could backfire and intellectual property owners could suddenly find themselves without copyright or trademark protection. In particular, under U.S. copyright law, copyright protection applies only if the design remains non-functional,<sup>123</sup> while under U.S. trademark law, trademark protection does not apply when the claimed features are functional either in a utilitarian or an aesthetic sense.<sup>124</sup> Ultimately, the adoption of the suggested amendment focusing on the substantial/insubstantial value of incidental copyrighted features could finally

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<sup>122</sup> *Ibid.* See also Pierre-Emmanuel Moyse, "La Confusion des Genres: Logos and Packaging as Copyrighted Works" in Irene Calboli & Edward Lee, eds., *Trademark Protection and Territoriality Challenges in a Global Economy* [Edward Elgar, forthcoming in 2014].

<sup>123</sup> See 17 U.S.C. § 101 (definition of useful articles); *Brandir International, Inc. v. Cascade Pacific Lumber Co.*, 834 F.2d 1142 (2nd Cir. 1987) (applying § 101 to deny copyright protection where the utilitarian aspects of a useful article were inseparable from its artistic aspects).

<sup>124</sup> See 15 U.S.C. § 1052(e)(5) (barring trademark registration for functional features); *TrafFix*, *supra* note 115 (features of expired utility patent are presumed functional and therefore cannot be protected by trademark law); *International Order of Job's Daughters v. Lindeburg And Company*, 633 F.2d 912 (9th Cir. 1980) (fraternity logo found aesthetically functional when applied to jewellery); *Pagliero v. Wallace China Co.*, 198 F.2d 339 (9th Cir. 1952) (establishing the doctrine of aesthetic functionality). See also *Fleischer Studios, Inc. v. A.V.E.L.A. Inc.*, 636 F.3d 1115 (9th Cir. 2011) (the "Betty Boop" character was aesthetically functional and not protectable as a trademark) withdrawn by 654 F.3d 958 (9th Cir. 2011); *Fleischer Studios, Inc. v. A.V.E.L.A. Inc.*, No. 925 F. Supp.2d 1067 (C.D. Cal. 2012) (the word mark "Betty Boop" was aesthetically functional to describe competitor products consisting of dolls representing the "Betty Boop" character).



put an end to, or considerably diminish, intellectual property owners' inappropriate and distortive use of copyright law for incidental product features in the U.S., in particular under a reinstated rule of national exhaustion should Congress overrule *Kirtsaeng*. Equally important, the language of the proposed amendment seems to be compatible with the U.S.'s international obligations under the *U.S.-Jordan FTA* and *U.S.-Morocco FTA*.<sup>125</sup> The (leaked) drafts of the *TPP* indicate, furthermore, that the same USTR may support such an exception for "accessory copyright". Notably, as a general exception to the U.S. position against parallel imports in the *TPP*, a footnote in the drafts (seemingly proposed, or at least supported, by the USTR) states that the rights to block parallel imports may "apply only to books, journals, sheet music, sound recordings and audio and visual works (i.e., categories of products in which the value of the copyrighted material represents *substantially all of the value of the product*)."<sup>126</sup> In other words, under the *TPP*, countries would remain free to exclude from the general rule of parallel imports copyrighted features that do not have "substantial" value. As in our proposed amendment, this includes product accessories that contribute an "insubstantial part of the value" of the imported merchandise.

## V. CONCLUSION

In March 2013, the Supreme Court of the U.S. changed the international trade landscape with its decision in *Kirtsaeng*—intellectual property owners could no longer resort to copyright law in order to avoid the limitations imposed by trademark law with respect to blocking grey market products imported into the U.S. Only time will tell, however, whether this change will be permanent, as intensive Congressional activity is currently taking place to comprehensively reform copyright law in the U.S. Future copyright reforms may include overturning the Supreme Court and clarifying that the U.S. follows (again) national copyright exhaustion. As Justice Ginsburg argued in her dissent in *Kirtsaeng*, such a shift back may even be required to realign the domestic position with the obligations that the U.S. has assumed with (or perhaps forced upon) other countries at the international level. Yet, should Congress overturn *Kirtsaeng*, copyright law could again be exploited as a type of mutant trademark protection against parallel imports. This will again permit intellectual property owners to bypass the pro-competitive policy of trademark law and replace it with the more monopolistic-driven protection of copyright law. Accordingly, Congress should consider adopting a legislative amendment that would prevent copyright law from encroaching on trademark law with respect to the protection of product accessories in the context of parallel imports. In this article, we have proposed a legislative amendment that builds upon the lessons derived from similar initiatives pioneered by Singapore and Australia. Such a legislative solution would be superior to possible judicial solutions, as it could reduce the uncertainty that arises from case-by-case

<sup>125</sup> A specific exception in this respect appears in a side letter to the *U.S.-Morocco FTA*, *supra* note 25, online: United States Trade Representative <[http://www.ustr.gov/sites/default/files/uploads/agreements/fta/morocco/asset\\_upload\\_file717\\_3850.pdf](http://www.ustr.gov/sites/default/files/uploads/agreements/fta/morocco/asset_upload_file717_3850.pdf)>

<sup>126</sup> *TPP IP Chapter Draft Aug. 2013*, *supra* note 12, art. QQ.G.3, n. 135 [emphasis added]. The provision also states that "each Party may [but is not obliged to] provide the protection described in Article [QQ.G.3] to a broader range of goods": *ibid.*

adjudication. In practice, such an amendment would make it more difficult for trademark owners to exploit overlapping intellectual property rights by substituting one protection for another by adding trivial copyrightable content to their uncopyrightable products. In the controversial landscape of international trade negotiations, our proposal seems also compatible with the majority position supported in the (leaked) drafts of the *TPP*, and certainly with art. 6 of *TRIPs*.